

**STATEMENT OF  
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**BEFORE THE SUBCOMMITTEE ON HOUSING OPPORTUNITY  
AND COMMUNITY DEVELOPMENT**

**HUD 2020 Management Reform Plan  
May 7, 1998**

Chairman Mack and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the status of HUD's implementation of the HUD 2020 Management Reform Plan. You asked that we touch on three issues: the extent to which the reforms address previously reported weaknesses, potential problems the Congress should monitor, and the relationship between the HUD 2020 Management Reform Plan and the Strategic Plan.

My office has closely watched the reform effort as it has progressed over the last 10 months. The reform has had a profound impact on nearly every aspect of the Department's operations. Staff has been downsized, offices consolidated, and new organizations are being established. We must move forward, because HUD is not staffed to turn back at this point.

HUD's reforms, up until this point, have focused almost entirely on staffing and organizational changes. The organizational changes are intended to bring about operating efficiencies by consolidating functions. Because HUD programs are unchanged, these organizational reforms can be made rapidly and without legislation. However, HUD's future depends on far more than successful organizational changes.

Typically, the first critical step in a major organizational reengineering is to develop a clearly defined business mission. Developing supporting programs and policies is the next step. Once the mission, programs and policies are in place, the usual next steps would be fine tuning of the organizational structure and identifying the necessary resources to carry out the mission. Finally, effective management systems are needed for the organization to meet its mission, help measure achievements, establish internal controls and allow for adjustments of resource priorities as workload and circumstances change. HUD 2020 addresses some aspects of personnel as well as organizational changes. But, largely, it did not address HUD's business mission, programs or the basic system and internal control improvements that are essential elements in an effective reform effort.

Just recently, HUD has started to evaluate its business mission as currently legislated. Next week, the Department is planning a business and operating plan conference with all Headquarters and Field managers. The conference is to result in business and operating plans to implement major management reforms. We believe that this is a step in the right direction, although definition of the business mission should have preceded organizational changes. We believe that HUD must further focus on clarifying

its mission and consolidating its programs. HUD has more than 300 programs and activities. Even HUD's published reform plan acknowledged the structural dysfunction caused by the "Proliferation of a number of small 'boutique' programs."

Legislative changes would enable HUD to run more efficiently with less staff. Some of HUD's reforms announced in the June 1997 Reform Plan are tied to the enactment of legislation. Among those changes were program consolidation and streamlining and automatically mandating judicial receivership for PHAs that are in a "troubled" status for more than 1 year. HUD proposed legislation this year to terminate 81 inactive programs and activities. However, these inactive programs have little or no impact on staffing resources. Congress, OMB and HUD need to come to agreement on a business mission and seek out additional legislative changes to make the Department operate more effectively.

### **How HUD's Reforms Address Weaknesses**

HUD's material weaknesses are reported in the OIG's annual financial audits of the Department. Fiscal year 1997 is the seventh year of HUD's financial statement auditing under the Chief Financial Officers Act. Most of the material weaknesses and reportable conditions in our current report were reported in prior years. HUD has been taking action to address these weaknesses, but, for the most part, progress has been slow. HUD's ability to implement HUD 2020 Management Reform Plan is affected by these same weaknesses, which relate to HUD's financial management systems, resource management, controls over subsidy payments, monitoring of program participants, and management control program.

#### Financial Management Systems

Reliable and accurate financial management systems will be critical to HUD's downsized environment. The integrated financial management system under development includes not only financial data but also an Executive Information System and Geographic Information System. Although HUD has revised its integration strategy under HUD 2020 and is making progress, we remain concerned over the Department's ability to control performance of the implementation contractor, and control project schedules and costs. These concerns are based on the results of our recent financial statement audit and other reviews showing that, historically, system development has been problematic. Further, because the integrated system is dependent on feeder systems, HUD needs to take action to address: Year 2000 problems, system development issues for the Real Estate Assessment Center and the Enforcement Center systems, and data clean-up efforts.

**Year 2000** - On January 1, 2000, there is the real possibility that some of the Department's computer systems could malfunction or produce incorrect information. HUD recognized the Year 2000 problem 2 years ago and established a Year 2000 Project in the Office of Information Technology. Both the awareness and assessment phases of the project have been completed. However, HUD needs

to follow several “industry recognized” best practices to minimize the risk and impact of potential system failures.

- First, HUD should establish an agency-level program office to manage and coordinate Year 2000 activities. With limited time remaining, an executive level office should control the accuracy and timeliness of reporting, and make the hard decisions regarding business priorities and resource allocation.
- Second, HUD must control changes made to systems software and associated documentation throughout the development and operational life of the system. Although HUD agreed over the past 3 years to implement such controls, only two of the 75 critical applications are partially controlled. Without these controls, HUD cannot track needed corrections for the Year 2000.
- Third, contingency plans must be developed to handle system failures in the Year 2000. Without contingency planning, if Year 2000 system failures occur, HUD will be unable to write new and/or maintain existing Single and Multifamily insurance and long-term housing subsidy commitments. Disruption to the subsidy processing system could have a devastating effect on PHAs, owners and residents.

**System Development Issues for the Centers** - The new Centers are heavily dependent on technology. The Real Estate Assessment Center has made substantial progress toward developing a viable automated physical inspection system. A separate effort is underway to develop the financial protocol evaluation for PHA and multifamily properties. However, the Enforcement Center still has not fully defined its information needs. It plans to rely on the Real Estate Management System developed by Housing to track enforcement cases. Because this system will not provide access controls over sensitive legal action information, Enforcement Center needs to immediately define the data and security requirements for managing enforcement actions.

**Data Clean-up Efforts** - The Department realized the importance of data clean-up as part of HUD 2020, but this is a huge task. Serious data integrity problems exist in feeder systems for critical data elements such as funding levels, reserve levels, renewal information and resident data. Further complicating the clean up effort, data elements in one system may disagree with the same elements in companion systems. It is a staff intensive effort to correct problems that have built up over years of neglect.

The Chief Financial Officer (CFO) is managing a coordinated data clean-up effort for elements that will feed the Community 2020 data base and the new Integrated Financial System. However, the effort is still in its early stage and is not expected to be completed when the new financial management system comes on line later this year. The CFO needs to develop a project plan with specific tasks for

correcting erroneous data in supporting systems. The plan should also address long term solutions needed to control data quality.

### Resource Management

Resource management remains a material weakness in our most recent financial statement audit report. In answer to concerns over the adequacy of staffing, the Department contracted with Booz-Allen & Hamilton, Inc., whose final report concluded that a staffing level range between 7,400 and 8,100 would be adequate to carry out the Department's responsibilities under HUD's 2020 Management Reform Plan. However, the report noted that the validity of this staffing level is contingent upon successful implementation of the new organizational structure, processes and systems, passage of legislative program consolidations and the realization of the benefits of portfolio reengineering.

HUD staffing during the last year has been cut to about 9,100 employees. Many HUD staff have been selected for new positions in the various Hubs and Centers but continue in their old jobs until the many administrative details of the reorganization are worked out. Some staff have been waiting for several months. During the transition, while the workload has not changed, there are fewer people to do the work. Consequently, as reported in our latest financial statement audit report, necessary work activities, such as property inspections and financial statement reviews, are not being done during the transition. Further, in some cases the Department is compensating for staff voids through contracting.

Finally, under HUD 2020, major training dollars are required as staff take on new jobs and responsibilities. Training is required for employees who took positions in areas where they had no experience. For example, Single Family Housing staff taking jobs in Public Housing need to be trained in Public Housing Programs. Newly designated Community Builders require extensive training in HUD's entire operation. Inspectors will need training in the use of new inspection protocols. Enforcement Center employees will require intensive training in asset management functions. A bumpy road ahead can be expected as many employees take on different jobs.

### Verification of Subsidy Payments

HUD spent about \$18 billion in fiscal year 1997 to provide rent and operating subsidies benefiting over 4 million lower-income households through a variety of programs, including public housing and several variations of the Section 8 program. HUD's control structure in place during fiscal year 1997 did not provide reasonable assurance that these funds were expended by Housing Authorities and project owners in compliance with the laws and regulations authorizing these programs.

Congress provided HUD with access to federal income tax data to ensure that subsidies are based on correct tenant income. Computer matching pilot projects are currently underway in both the Office of Housing and PIH, using the unplaced staff in the

Chicago Office. HUD estimated housing subsidy overpayments of \$939 million based on computer income matching with 1996 Federal income tax data for the fiscal year 1997 financial statements.

The CFO developed a work plan to address the income verification weakness for both the Office of Housing and PIH, in April 1998. If all actions in the work plan are implemented, we are encouraged that the long standing weakness will be corrected. The plan calls for continuing income computer matching using the Chicago Office staff, as well as unplaced employees in the Seattle Office, in the interim. For the future, the Department is evaluating whether to permanently place the operation in the Real Estate Assessment Center. The current legislation does not allow HUD to disclose federal income tax data to PHAs, contract administrators or project owners. In light of plans to contract out the subsidy payment process to contract administrators, one of the CFO's planned actions is to develop legislation to permit the disclosure.

#### Monitoring of Program Participants

HUD 2020 defines key initiatives aimed at improving HUD's monitoring of multifamily projects and reducing losses to the FHA fund. These include the Real Estate Assessment Center and contracting out administration of subsidy payments to contract administrators, such as State Housing Finance Agencies and PHAs. Pending the establishment of the Real Estate Assessment Center, the Office of Housing has no mechanism to review financial statements or conduct inspections. When HUD 2020 reforms were initiated, the Office of Housing did not take actions to find a replacement financial statement review contractor and abandoned efforts to conduct physical inspections.

HUD 2020 also aims to improve monitoring and performance of the Public Housing Program. The Office of Public Housing's new field office organization structure will include Hub offices and Program centers, the Real Estate Assessment Center, and Trouble Agency Recovery Centers. While we agree on the need to improve the oversight of the Public Housing Program, the Department's plans to monitor and improve performance in this area are not fully developed and have been changed a number of times. Until the new Real Estate Assessment Center is fully operational, we are unable to assess HUD's ability to fully monitor public housing. The Real Estate Assessment Center is to establish standard inspection protocols to assess the physical condition and quality of public housing. It is also to work more closely with the non-federal audit community, placing greater emphasis on independent confirmation of Housing Authorities' Public Housing Management Assessment Program (PHMAP) process.

#### Internal Controls and Management's Control Program

As HUD operates in the middle between the new HUD 2020 organization and the old organization, the Department is very vulnerable. Policies and procedures have not been developed for the new organizational structure and there is confusion over roles and responsibilities. HUD 2020's organizational structure was developed without evaluating

the potential risks that may evolve as a result of the reorganization. To the Department's credit, under HUD 2020, an Office of Risk Management has been established in the Office of the CFO. They have just begun to perform risk assessments on the new organizational structures. However, these risk assessments may be too late in the process to make significant changes.

### **Critical Future Actions**

Critical to the success of HUD 2020 will be the completion of certain key actions. These critical areas form the framework for many other changes taking place throughout the Department. Without this framework, HUD would need to return to the old way of doing business. However, turning back is no longer an option with HUD's diminished staff resources. As originally planned, most of the reform issues discussed below are well past their original target dates. We recognize that many of the planned action dates were overly ambitious. However, because HUD is now operating in the middle without organizations in place to take over necessary functions, it is important that for certain key actions HUD develop plans with realistic time frames and specifically define how HUD will operate in the transition until the key actions are completed.

- *The Real Estate Assessment Center must become operational and be supported by fully tested and implemented physical and financial assessment protocols. These protocols must be affordable and provide the necessary gradation to identify problem properties.* The Real Estate Assessment Center will feed information to Hubs, Troubled Agency Recovery Centers and the Enforcement Center for monitoring and enforcement actions.
- *Contracting for Project-Based Section 8 Administration must be completed . Also, HUD must assure that contractor costs are reasonable and that a system is in place to monitor contractor performance.* Under the 2020 Plan, HUD plans to move from retail to wholesale for project-based Section 8 administration. Section 8 administrative activities currently performed by HUD staff for 21,000 subsidized projects will be contracted out. As discussed in our latest financial statement audit, HUD's past oversight of Section 8 payments to project owners has been weak, primarily due to inadequate staffing. HUD cannot address the subsidy payment weakness until the successful transfer of responsibilities to contract administrators is completed. After Section 8 administration is contracted out, HUD will refocus on contract oversight - - an area of historic weakness.
- *HUD must contract for the disposition or management of HUD owned single family properties (REO) and develop a system for contractor oversight. Contracting decisions must be cost effective and keep in mind any mission requirements.* HUD is proceeding with the untested plan assumption that the private sector can purchase HUD's pipeline of foreclosures or notes and dispose of properties quicker and cheaper. This eliminates the need for hundreds of HUD staff.

- *The Trouble Agency Recovery Centers must become operational and supported through input from the Real Estate Enforcement Center.* HUD's oversight strategy for PHAs should be finalized. The Troubled Agency Recovery Centers must be sufficiently able to handle the volume of activity either with HUD or contractor staff.
- *The Office of Multifamily Assistance Restructuring must become operational and begin taking action on restructuring mortgages.* The law, enacted in October 1997, requires HUD to restructure troubled project mortgages to market levels. It also provides for separate staffing for the function. The legislation requires implementation by October 1998. The Office of Housing is concerned that implementation may not occur within the mandated implementation date because they do not have the capacity or skills to develop final implementation plans. While a contract with a management consultant with appropriate skills is needed, the award has been delayed.
- *Sufficient budget and contract dollars must be available in the long term to make the reform plan work.* There remains great uncertainty as to the cost of many of the items discussed above. For example, the physical inspection protocol is still being refined. The more detail in the final protocol, the more costly. If details are cut out to save costs, then the concept of the assessment may not work. There is also uncertainty about the costs of Section 8 contract administration and Single Family property disposition contracting.
- *HUD must develop an acceptable procurement process.* HUD 2020 is placing a great deal of reliance on contracting to carry out the functions of the Department with a downsized staff. Because of the volume of contracting anticipated, it is critical that the Department have a procurement process to assure that contracting is administered in an efficient and effective manner. Weaknesses in contract administration were reported in our September 1997 report on HUD contracting. To date, HUD actions to correct the weaknesses include contracting with NAPA to review the procurement system and hiring a Chief Procurement Officer in March 1998. While ambitious plans for correction have been developed, changes have not yet been implemented.

## **HUD's Strategic and Annual Performance Plans**

The last point you asked me to address was the relationship between the HUD 2020 Management Reform Plan and HUD's strategic and annual performance plans. The relationship is very general, as 2020 is generally limited to organizational and staffing changes. Each document defines HUD's mission as "Empowering People and Communities" and "Restoring the Public Trust." Measuring the successful implementation of such a broadly defined mission is all but impossible. GAO's draft Report of HUD's Annual Performance Plan provides a good assessment of HUD's plan. The report notes that the plan does not provide a clear picture of intended performance; the plan does not describe all the resources that will be used to achieve these goals; and the plan does not address all the systems from which performance data will be extracted.

A good illustration of the obscurity of the goals and indicators is evident in the strategic objective 1, “to empower people to meet local needs”. The reported linkage of this objective to the HUD 2020 Management Reform Plan is the redesigned field structure. The indicators of success will be based on tracking systems or other indicators that have not yet been defined. In terms of the Department’s seven strategic objectives, the GAO reported that 25 of the 63 performance indicators did not provide quantifiable measures that will allow for a comparison of performance over the years.

GAO also noted that the strategic plan and performance plan do not address all program activities within HUD. Each significant activity should be covered so that results can be measured.